

# Compliance with the Federal Managers' Financial Integrity Act (FMFIA)

## FMFIA Report on Material Weaknesses and Non-conformances

VA managers are required to identify material weaknesses relating to their programs and operations pursuant to sections 2 and 4 of the Integrity Act as defined:

- Section 2 seeks to assess internal controls necessary to ensure compliance with applicable laws; protect against loss from waste, fraud, and abuse; and ensure receivables and expenditures are properly recorded.
- Section 4 seeks to assess nonconformance with governmentwide financial systems requirements.

## Progress on Material Weaknesses

VA managers continue to make progress in correcting existing material weaknesses and non-conformances. The 2003 Consolidated Financial Statements Audit Report disclosed no new material weaknesses. In addition, there are no new management control material weaknesses disclosed or reported.

At the end of 2002, four material weaknesses and two nonconformances were carried forward in 2003.

*On a regular basis, VA managers monitor and improve the effectiveness of management controls associated with their programs and financial systems. This continuous monitoring, and other periodic evaluations, provide the basis for the Secretary's annual assessment of and report on management controls as required by FMFIA, commonly referred to as the Integrity Act.*

In addition, Deloitte & Touche, LLP, reported two repeated material weaknesses from the 2002 audit report – "Information Technology Security Controls" and "Lack of Integrated Financial Management System."

We are pleased to report that corrective actions were taken during 2003 to warrant closure of one of the four Integrity Act management control material weaknesses – "Housing Credit Assistance Program." We plan to close another, "PAID System–Mission Performance," by October 2003. The remaining four material weaknesses (two audit material weaknesses and two management control material weaknesses) will be corrected during 2005 and 2006.

## Federal Financial Management Improvement Act (FFMIA)

The Federal Financial Management Improvement Act (FFMIA) encourages agencies to have systems that generate timely, accurate, and useful information with which to make informed decisions and to ensure

accountability on an ongoing basis. The Department faces challenges in building and maintaining financial management systems that comply with FFMIA. Under FFMIA, VA is substantially compliant with the exception of "Federal financial management systems requirements." VA's noncompliance in this area will be resolved when the Core Financial and Logistics System (CoreFLS) is fully implemented in 2006.

The following tables provide the current status of existing audit material weaknesses and management control material weaknesses:

## Audit Material Weaknesses

Description	Current Status	Resolution target date
<b>Information Technology Security Controls</b> – VA's assets and financial data are vulnerable to error or fraud because of weaknesses in information security management, access to controls and monitoring, and physical access controls.	Plans are being implemented to address this weakness. The Department has maximized limited resources to make significant improvement in VA's overall security posture in the near term through prioritizing Federal Information Security Management Act remediation activities.	September 2005
<b>Lack of Integrated Financial Management System</b> —Difficulties exist in the preparation, processing, and analysis of financial information to support the efficient and effective preparation of VA's consolidated financial statements.	The Core Financial and Logistics System project will replace VA's current financial management system. VA is beginning migration of core accounting functions from mixed systems to CoreFLS. Full implementation of CoreFLS will correct this deficiency.	March 2006

## Management Control Weaknesses

Description	Current Status	Resolution target date	Section 2	Section 4
<b>PAID System—Mission Performance</b> —VA's central payroll and personnel system, PAID, lacked the ability to expand.	The PAID system has been modified to allow an employee's pay/benefits to be allocated to four fund/cost center combinations and to pass this distribution labor cost to FMS.	October 2003		X
<b>Internal Control Weaknesses in the Compensation and Pension Payment Process</b> —Erroneous and fraudulent payments were found.	Procedures are underway to augment internal controls in the area of erroneous payments. Measures are being taken to pinpoint the amount of overpayments in each program area and to determine the nature and causes of the overpayments.	October 2004	X	
<b>Compensation and Pension System—Lack of Adaptability and Documentation</b> – The system is outdated and needs to be replaced.	Remediation plans are in place for total conversion to VETSNET.	January 2005		X